

Presentation to Los Angeles County Commission on Insurance

Subcommittee on Fraud

December 8, 2011

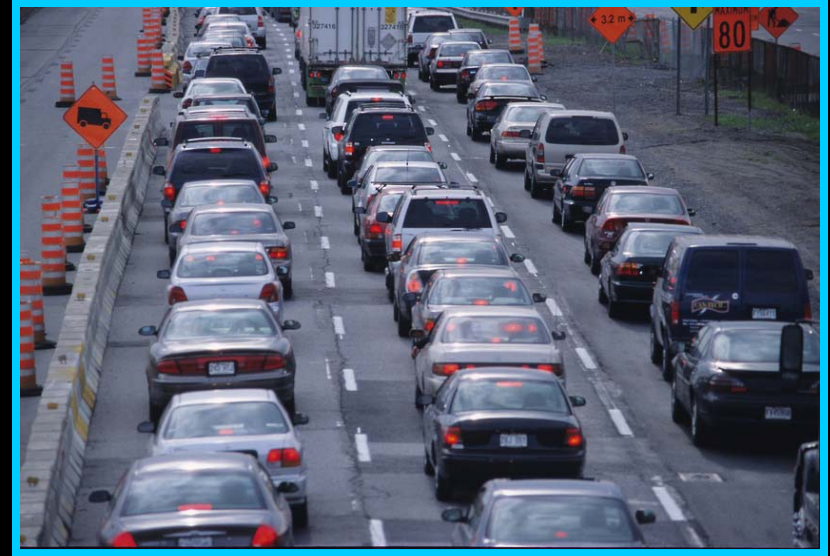
Automobile Insurance Fraud



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IC 1871-Legislative Findings and Declarations

- ❖ Fraudulent activities account for 15 to 20 percent of all auto ins. payments
- ❖ Auto ins. fraud is the biggest and fastest growing segment of insurance fraud
- ❖ Auto ins. fraud contributes substantially to the high cost of auto insurance, particularly in urban areas



According to the National Insurance Crime Bureau (NICB):

- ❖ Insurance crime nationwide costs \$20 billion annually
- ❖ Widespread insurance fraud ultimately translates into higher insurance premiums
- ❖ It is estimated that auto insurance fraud alone costs each consumer an additional \$200 a year per policy



GRANTS

GRANTS

AIF Grant

- **IC 1872.8**
- **18 years**
- **Budget 2011-12 \$4,536,175**

Urban Grant

- **IC 1874.8**
- **11 years**
- **Budget 2011-12 \$2,728,400**

AIF GRANT

100% Budgeted Positions (21)

3 DDA IV

7 DDA III

1 Supervising Investigator

6 Senior Investigators

1 Paralegal

1 Legal Office Support Assistant II

2 Legal Office Support Assistant I

AIF GRANT

95% Budgeted Positions (3)

1 Head Deputy

1 Deputy District Attorney IV

**1 Supervising Legal Office Support
Assistant**

65% Budgeted Position (1)

1 Intermediate Clerk

10% Budgeted Position (1)

1 Lieutenant

URBAN GRANT

100% Budgeted Positions (13)

2 Supervising Investigators

10 Senior Investigators

1 Senior Typist Clerk

90% Budgeted Position (1)

1 Lieutenant



Types of Fraud

- **Opportunistic Fraud**
- **Arson for Insurance Fraud**
- **Paper Accidents**
- **Auto Body Fraud**
- **Adjuster Fraud**
- **Chiropractor/ Medical Fraud**
- **Staged Accidents-Targeting Innocent Drivers**
- **Illegal Referrals (Capping)**
- **Law Office Related Fraud**
- **Organized Fraud Rings (all of the above)**

Opportunistic Fraud

Opportunistic Fraud

Owner give up cases

- Burn
- Feigned Thefts
- Across the border
- Hide
- Dismantle and hide parts



False Receipt Cases

- High end rims
- High end stereo systems
- Theft of vehicle contents, i.e. laptops, i-phones etc.





Auto Body Shop Fraud



Auto Body Shop Fraud

By auto body shop owner or manager

- Submitting estimates for unnecessary work which may or may not be done
- Being paid for work not done and proper parts not replaced





Auto Body Shop Fraud (continued)

Conspiracy between Car Owner and Auto Body Shop

- Waiver of deductible
- Inflate the estimate
- Include within estimate prior existing damage
- Kick back part of the insurance check to the car owner

Conspiracy between tow truck driver and Auto Body Shop

- Referral fee





Auto Body Shop Fraud (continued)

Conspiracy between MDA (Material damage adjuster) and Auto Body Shop

- MDA steers car owner to an auto body shop, with whom he has a kickback agreement, usually not an earned body shop
- MDA promises car owner a waiver of deductible
- MDA provides great service. The damaged car is picked up on a flat bed, a rental car is arranged and dropped off.

Auto Body Shop Fraud (continued)

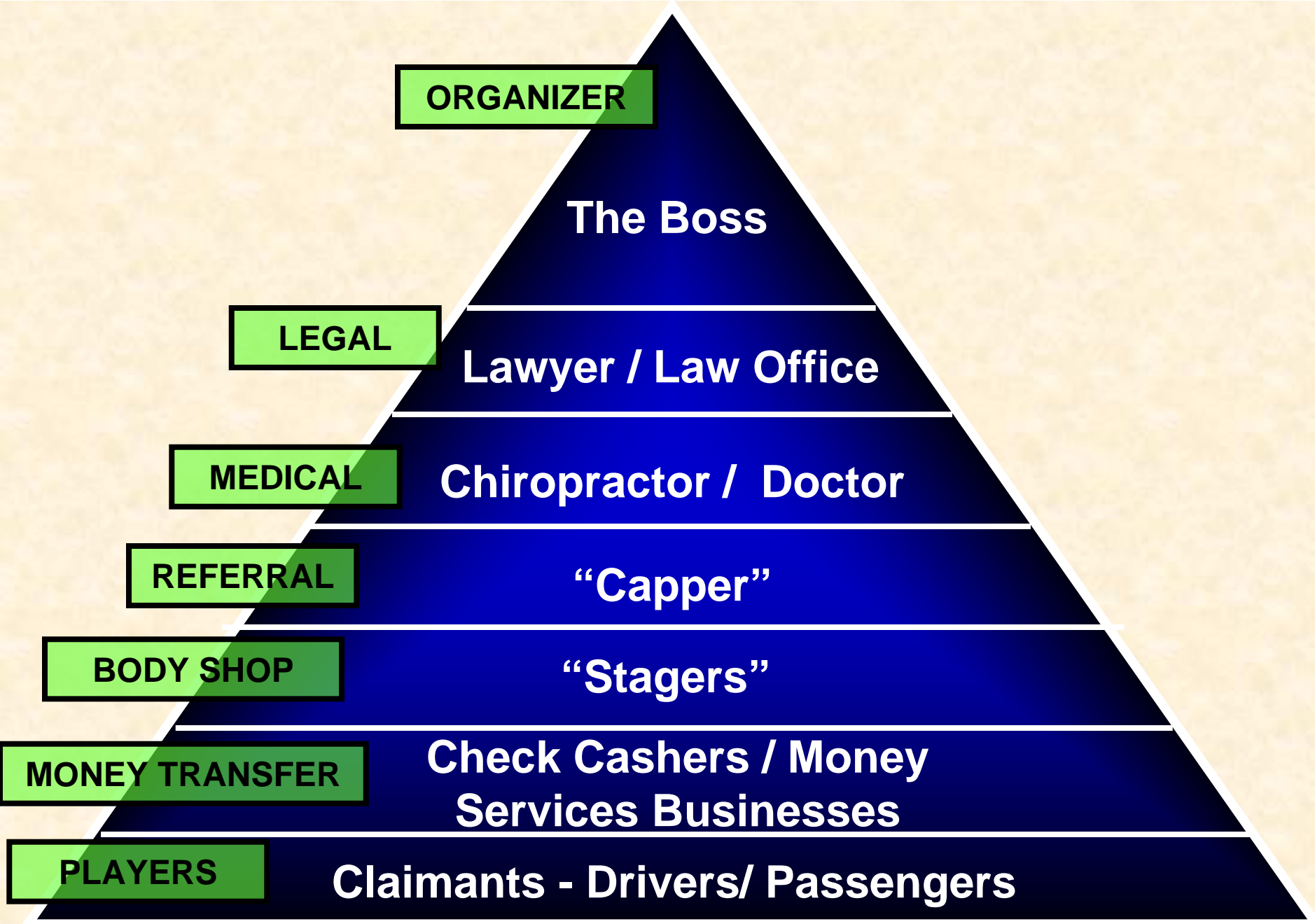
- MDA wrote estimates and supplemental estimates for unnecessary repairs and replacements
- MDA had check writing authority and wrote checks to auto body shop and car owner
- Check cashers are used to cash checks
- MDA and auto body shop split the ill gotten gains

Investigating Auto Body Shop Fraud

- Obtain *estimate and supplemental estimates* from insurance company
- Obtain Expert MDA-reviews car and/or reviews *photos of damage* to see if repairs and replacements were necessary and if so, were they done. Compare to estimates and supplemental estimates by suspect
- Suspect MDAs are issued cameras that are time stamped.
- *UC operation* into the body shop with help of B.A.R. - expert examines car before it is damaged, after it is damaged and after it is repaired. Maintain transition log for chain of custody.

THE PLAYERS - STRUCTURE OF A RING

INSURANCE FRAUD RING - STRUCTURE



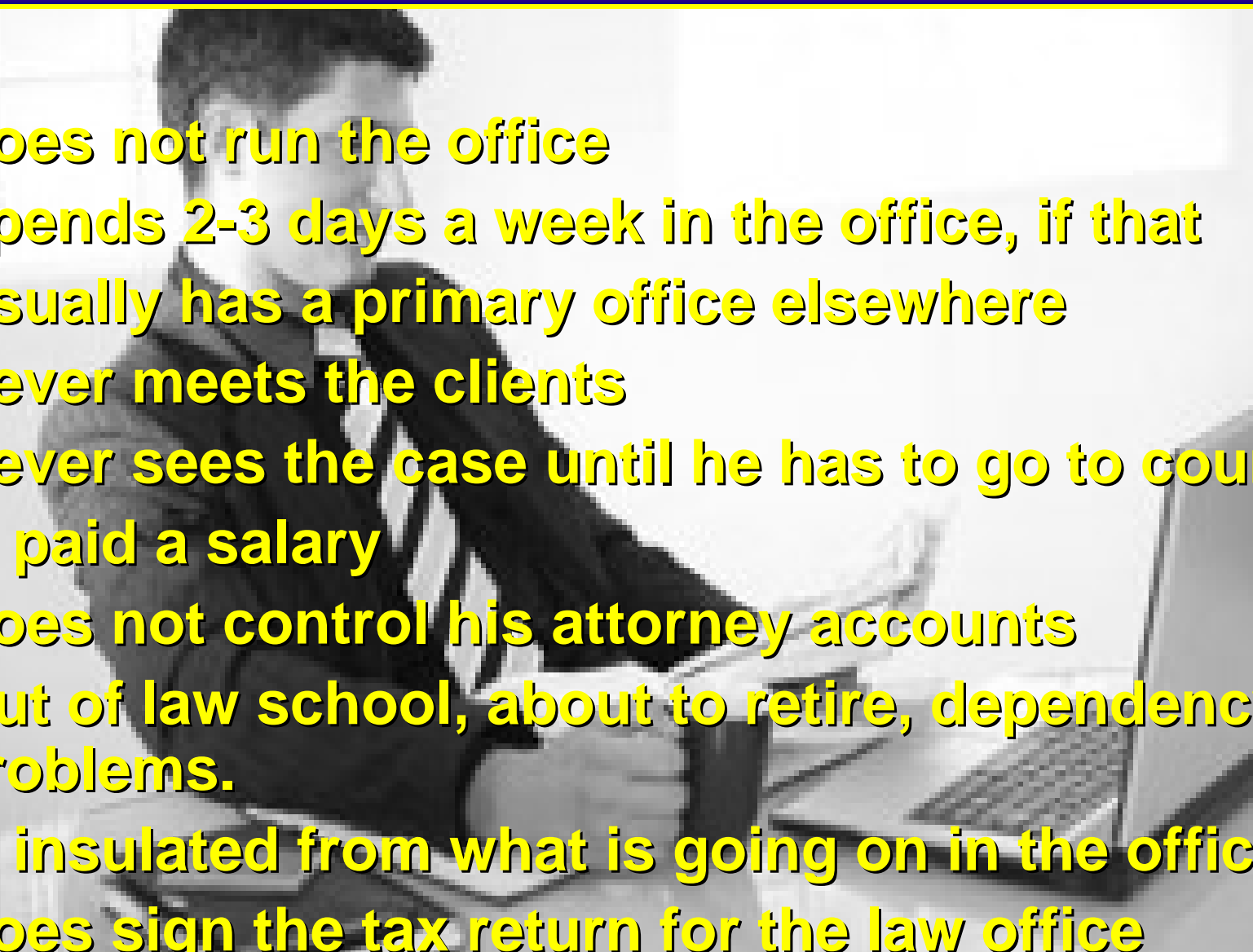
The Capper

- ❖ Sells referrals to the office administrator/lawyer.
- ❖ Sells referrals to a chiropractor
- ❖ Can also stage the accident
- ❖ Gets paid \$500 to \$2,000 per head
- ❖ Capitalizes the enterprise, gets the cars, pays for the insurance
- ❖ Steal identities to use as drivers and passengers
- ❖ Obtains false CDLs at DMV

Office Administrator

- ❖ ***A non-lawyer. Sets up the law office. Signs the lease, buys the furniture, leases the equipment***
- ❖ ***Advertises for a lawyer to lend his name to the office. Lawyer is usually young, or elderly, and/or has some alcohol or dependency problems***
- ❖ ***Obtains a signature stamp of the lawyer and/or is a signatory on the accounts***
- ❖ ***Controls the client trust and general accounts***
- ❖ ***Uses a check casher to cash checks.***
- ❖ ***Has the relationship with the cappers***

The Lawyer

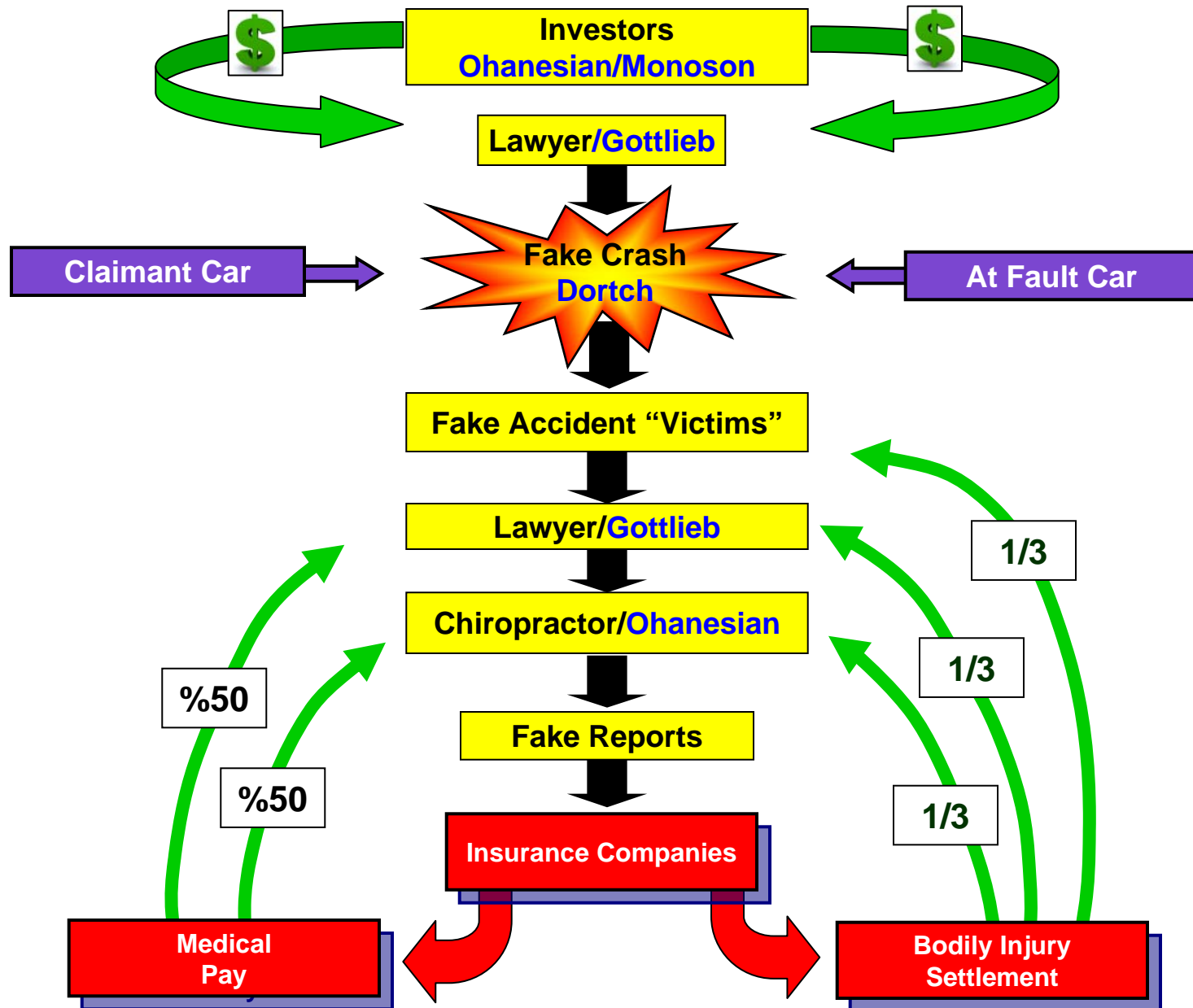
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- ❖ Does not run the office
 - ❖ Spends 2-3 days a week in the office, if that
 - ❖ Usually has a primary office elsewhere
 - ❖ Never meets the clients
 - ❖ Never sees the case until he has to go to court
 - ❖ Is paid a salary
 - ❖ Does not control his attorney accounts
 - ❖ Out of law school, about to retire, dependency problems.
 - ❖ Is insulated from what is going on in the office
 - ❖ Does sign the tax return for the law office



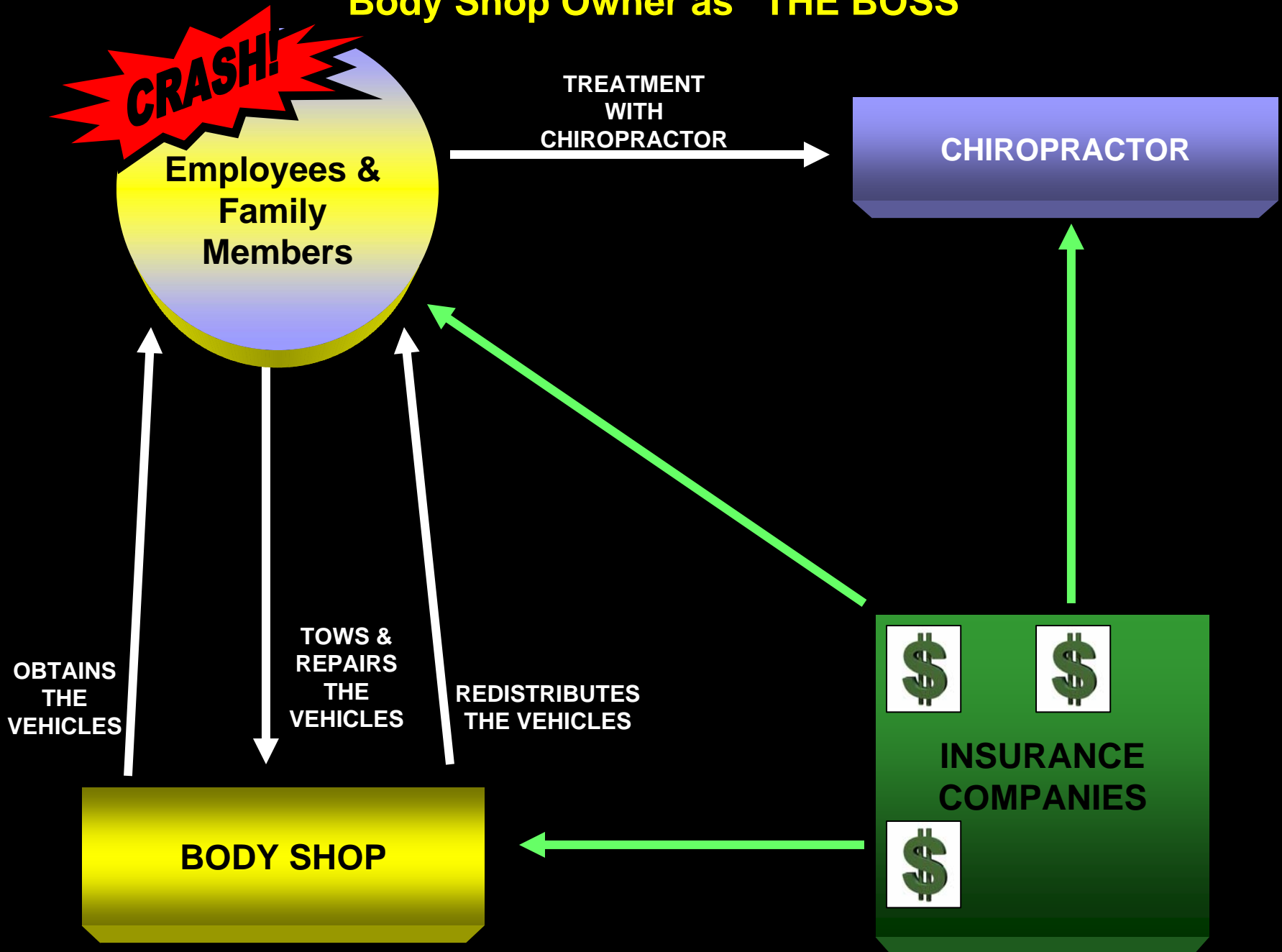
The Chiropractor

- ❖ **Has a referral agreement with law office, whereby will take less than the normal 1/3**
- ❖ **Sometimes refers the patient to the law office**
- ❖ **The more you bill, the larger the settlement. BI settlement is 2-3 times the specials**
- ❖ **False Reports and Bills**
 - ❖ Bill for unnecessary treatment. Amount of damage to car used to determine how many sessions of tx
 - ❖ Sees patient once but has patient sign in 30 times
 - ❖ Upcoding - bill for more severe injuries, bill as new patient
 - ❖ Never sees the patient, just charges standard fee for a report

CHIROPRACTOR AS "THE BOSS"



Body Shop Owner as "THE BOSS"



Storefront – *Who should be charged?*

BIG FISH

little fish



BIG FISH



- 1. Shuts down operation**
- 2. Is most culpable**
- 3. Disgorgement of profits**
- 4. Complaint or Grand Jury**

little fish



1. **Media Coverage**
2. **Deterrent Effect**
3. **Management of Evidence**
4. **Grand Jury**; more than 2 months; avoid holiday season; break down to multiple indictments
5. **Manpower**; interviews; arrests
6. **Courtroom Logistics**
7. **UC Testimony**; volume; impeachment; multiple transcripts

What the DA has to Prove:

- **Penal Code 550 – Insurance Fraud**
 - Present or cause to present a false or fraudulent claim
 - Multiple claim for same loss/injury
 - Cause or participate in a vehicular collision for purpose of filing false claim
 - Present a false or fraudulent claim for loss, theft, destruction or conversation
- **Beyond a reasonable doubt**

